

AR26



Sullivan Mining Group Ltd. East Sullivan Mines Limited

**Annual
Report
1973**

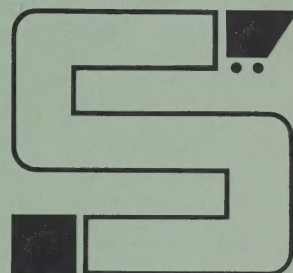
AR26



**Combined
Interim
Report
for the six months
ended
February 28
1973**

EAST SULLIVAN MINES LIMITED
SULLIVAN MINING GROUP LTD.

2500 — 500 Place d'Armes, Montreal 126, Que.



**Rapport
interiminaire
combiné
pour les six mois
terminés
le 28 Février
1973**

EAST SULLIVAN MINES LIMITED
GROUPE MINIER SULLIVAN LTÉE

2500 — 500 Place d'Armes, Montréal 126, Qué.

ÉTAT COMBINÉ DES OPÉRATIONS (SUJET À VÉRIFICATION DE FIN D'ANNÉE)

	28 février 1973	29 février 1972
Production nette*	\$ 4,309,377	\$ 4,117,976
Coût d'opérations	<u>2,478,995</u>	<u>2,638,540</u>
Profit d'opérations	1,830,382	1,479,436
Dépréciation et amortissement	<u>1,139,411</u>	<u>1,023,755</u>
Profit d'opérations après dépréciation et amortissement	690,971	455,681
Revenus de placements et autres revenus	<u>386,303</u>	<u>616,794</u>
	1,077,274	1,072,475
Provision pour impôts et autres dépenses	<u>45,597</u>	<u>171,307</u>
	<u>1,031,677</u>	<u>901,168</u>

AJOUTER

Partie de la perte d'une compagnie subsidaire attribuable aux intérêts minoritaires	(56)	15,739
Bénéfices nets combinés	<u>\$ 1,031,621</u>	<u>\$ 916,907</u>
Intérêts des actionnaires extérieurs dans les bénéfices ci-haut :		
3,725,000 actions		
Groupe Minier Sullivan Ltée	\$ 587,671	\$ 516,821
2,846,032 actions		
East Sullivan Mines Limited	<u>443,950</u>	<u>400,086</u>
6,571,032 actions	<u>\$ 1,031,621</u>	<u>\$ 916,907</u>
Bénéfices nets effectifs par action détenue par les actionnaires exté- rieurs	<u>\$ 0.16</u>	<u>\$ 0.14</u>

NOTES

Les états combinés comparatifs des opérations, pour la période terminée le 28 février, résultent d'une combinaison des bénéfices des compagnies suivantes :

East Sullivan Mines Limited, Groupe Minier Sullivan Ltée, Société Minière d'Estrie Ltée, Société Minière Weedon Ltée et Nigadoo River Mines Limited.

* La production des métaux pour le 1er semestre a été comptabilisée aux livres avant le coût de réalisation aux prix suivants :

	28 février 1973	29 février 1972
Cuivre	\$ 0.55 lb.	\$ 0.50 lb.
Zinc	0.20 lb.	0.17 lb.
Plomb	0.15½ lb.	0.14½ lb.
Cadmium	3.40 lb.	2.25 lb.
Bismuth	4.00 lb.	3.50 lb.
Or	62.00 oz.	47.00 oz.
Argent	2.00 oz.	1.55 oz.

La mine Nigadoo a suspendu ses opérations depuis le 21 novembre 1971; le 1er semestre terminé le 28 février 1973 reflète les dépenses de cette mine inopérante.

ÉTAT COMBINÉ DE LA SOURCE ET DE L'EMPLOI DES FONDS (SUJET À VÉRIFICATION DE FIN D'ANNÉE)

	28 février 1973	29 février 1972
FONDS DE ROULEMENT		
au début de la période	<u>\$10,382,606</u>	<u>\$ 9,469,436</u>
SOURCE DES FONDS :		
Bénéfices nets combinés de l'exercice	1,031,621	916,907
Dépréciation et amortissement	1,139,411	1,023,755
Ajustement d'impôt des années antérieures	<u>56,392</u>	<u>(443)</u>
	<u>2,227,424</u>	<u>1,940,219</u>

EMPLOI DES FONDS :

Exploration extérieure	120,411	184,535
Dépenses préliminaires à la production	426,036	1,309,000
Additions des immobilisations	80,003	31,499
Acquisitions d'actions et de dé- bentures et avances à des filiales	777,746	720,652
Part des intérêts minoritaires dans la perte d'une filiale consolidée	(56)	15,739
Divers	<u>(2,682)</u>	<u>(2,451)</u>
	<u>1,401,458</u>	<u>2,258,974</u>
Augmentation (diminution) du fonds de roulement	<u>825,966</u>	<u>(318,755)</u>

FONDS DE ROULEMENT

à la fin de la période	<u>\$11,208,572</u>	<u>\$ 9,150,681</u>
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NOTE

Les états combinés comparatifs de la source et de l'emploi des fonds à la fin de février résultent d'une combinaison des compagnies suivantes :

East Sullivan Mines Limited, Groupe Minier Sullivan Ltée, Société Minière d'Estrie Ltée, Société Minière Weedon Ltée et Nigadoo River Mines Limited.



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*Les actionnaires qui
préféreraient recevoir ce rapport
en français sont priés
de communiquer avec le
secrétaire de la compagnie.*

HIGHLIGHTS

Sullivan Mining Group Ltd.

and

East Sullivan Mines Limited

	1973	1972	1971
	(in thousands)		
For the year			
Production	\$14,667	\$12,571	\$17,333
Earnings (before deduction of extraordinary item)	3,675	1,603	2,180
Earnings per share	0.56¢	0.24¢	0.33¢
Extraordinary item	1,673	—	—
Extraordinary item per share	0.26¢	—	—
Net Dividends paid	—	—	1,643
Exploration and Research (for new mines)	937	834	1,296
Capital Expenditures (development of new mines)	815	1,794	4,531
Depreciation and Amortization	1,671	1,782	2,552
At end of year			
Working Capital	13,977	10,383	9,469
Total Assets	44,528	42,387	41,126

To the shareholders of
Sullivan Mining Group Ltd.
and
East Sullivan Mines Limited
(No Personal Liability)

This report contains the combined, consolidated, as well as individual financial statements of your companies for the fiscal year ended August 31, 1973 and provides detailed information on operations, development work and exploration during this period. Also included in the report are financial data in respect of your companies' non-consolidated subsidiaries.

Highlights

When reading the report you may note that three factors emerge as highlights of the period.

The first was an increase in metal prices during the second half of the fiscal year. This favourable development contributed substantially to the earnings of your companies.

The second item that merits underlining is the increase in the working capital from \$10 million in 1972 to close to \$14 million for the fiscal year under review. This means that your companies, already enjoying a sound financial position, can now take even greater advantage of any new situation which may develop and lead to further expansion and growth.

Lastly, due to the exhaustion of ore in the Weedon mine, your directors have been compelled to discontinue the operations of this division. The loss incurred in this connection is reflected in the financial statements for the fiscal year, as an extraordinary item.

Financial

The net combined profits of both your companies, before the aforementioned extraordinary item of \$1,673,124, rose to \$3,675,327 or 56¢ per share effectively in circulation, compared to \$1,603,000 or 24¢ per share for the preceding year.

Cash flow increased from \$3,759,452 in 1972 to \$5,779,817 for the year under review.

Notwithstanding the Weedon mine loss, total assets which amounted to \$42,387,421 in 1972 have now grown to \$44,528,138. Consequently, equity per share of Sullivan Mining Group Ltd., at the end of the fiscal year, stood at \$6.66 compared to \$6.34 in 1972 with corresponding figures for East Sullivan Mines Limited being \$6.76 against \$6.44 per share in the previous year.

Underground Development and Research

Your companies and Dome Mines Limited, who jointly control Clinton Copper Mines, decided in September 1973 to sink a decline into the property

to open up one of the Clinton deposits. The ore derived from this operation will be trucked to the Sullivan Mining Group's concentrator located at Stratford. Financing of development and production will be carried out jointly by your companies and Dome Mines Limited. There is every reason to believe that shipments of ore will start early in January 1974.

As to Chester Mines, we are glad to report that the technical problems encountered in the development of its deposit have been resolved and we are now ready to proceed with the development of the company's orebody by way of an underground decline. Preliminary work of surface clearing will be undertaken during the coming weeks. It is the intention of your directors to proceed actively with this programme.

Finally, your directors believe that the time has come to sink a decline at Brunswick Tin Mines (a company controlled by Sullivan Mining Group) to gain access to a higher-grade part of its deposit. This decline will serve a twofold purpose namely metallurgical research and, eventually, ore extraction.

As you are undoubtedly aware, considerable metallurgical work has been carried out on Brunswick Tin ore during the last three years. Due to the sustained efforts of our own metallurgists working in the company's laboratory, as well of those at the Mineral Processing Division of the Department of Energy, Mines and Resources in Ottawa, significant progress has been made. Results to date indicate a number of possible metallurgical approaches, all of which require further studies and tests. In view of the complexity of the problem, your directors have deemed it advisable to retain the services of the consulting firm of Canadian Bechtel Limited to assume the direction and coordination of research work at all levels and to assist in the choice of the most suitable metallurgical process.

Nigadoo River Mines

Your directors have decided that it was now time to prepare for the re-opening of the mine and have authorized the necessary work to that effect. At present metal prices, Nigadoo when in full operation, should generate a satisfactory cash flow.

Quebec Lithium

In our previous two annual reports we have referred to the possibility of re-opening Quebec Lithium, a division of Sullivan Mining Group, which owns a large spodumene deposit and a nearly intact plant at Abitibi. The fact that your directors have not decided on an immediate resumption of production is due to unrealistic prices for the product despite a growing demand. We believe that this situation will change in the near future and that pressure of demand will eventually bring about a scarcity of lithium which in turn, will raise prices to levels justifying the resumption of operations of this division. A feasibility study is being currently undertaken by Surveyer, Nenniger & Chenevert Inc. We should also mention that the Federal and Provincial Governments by providing financial and technical assistance could help to make this an important, profitable and viable enterprise.

Exploration

Notwithstanding the difficulties experienced in 1971 and 1972, your companies have maintained exploration and the search for new mines at a significant level. We believe that in mining these activities are a condition of survival and that the long term investment involved will prove rewarding.

Conclusions

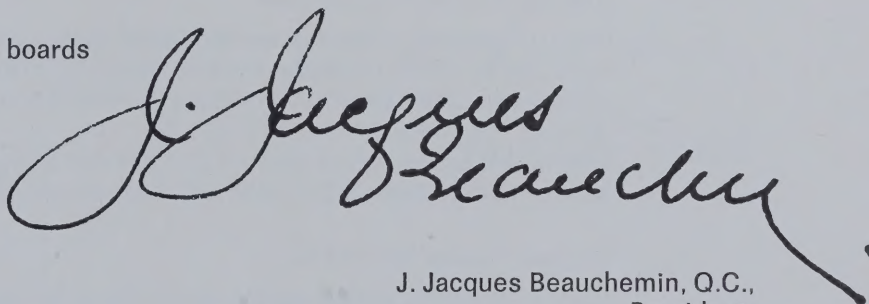
The directors are very optimistic about the future of your companies. They are determined to proceed energetically with all the projects on hand, both in the development stage and those which are approaching production status.

Substantial funds will be required during the fiscal year to achieve these objectives. Free of debt, your companies are in the enviable position of having at their disposal the funds necessary for the successful completion of all projects. The outlook for metal prices is promising at least for the current year. We believe that as a consequence substantial profits will be generated, thus further increasing the working capital of your companies.

Acknowledgements

Your boards of directors wish to express their appreciation to officers and employees at all levels of responsibility for their loyal and efficient services which contributed greatly to the companies' success.

On behalf of the boards
of directors,

A large, stylized handwritten signature in dark ink, reading "J. Jacques Beauchemin". The signature is written in a cursive, flowing style with a prominent initial "J".

J. Jacques Beauchemin, Q.C.,
President.

Montreal, October 12, 1973.

Development and Mining Operations

Cupra Division

During the fiscal year 1973 the mine produced 89,566 tons of ore averaging 2.18% copper, 4.25% zinc, 0.60% lead, 0.014 ounce of gold and 0.90 ounce of silver.

Development and stoping preparation have now been completed.

Ore reserves amount to 250,000 tons with a grade of 2.41% copper, 3.76% zinc, 0.49% lead, 0.011 ounce of gold and 0.832 ounce of silver.

D'Estrie Mining Company Ltd.

Ore mined amounted to 122,131 tons having an average grade of 2.81% copper, 3.36% zinc, 0.77% lead, 0.019 ounce of gold and 1.248 ounces of silver. Out of this tonnage, 99,406 tons came from stoping and 22,725 tons from development and stoping preparation.

The proven ore reserves between the 2650 foot and the 4025 foot horizons amount to 972,400 tons with a grade of 3.12% copper, 2.07% zinc, 0.67% lead, 0.015 ounce of gold and 1.127 ounces of silver. The limited development work, carried out to date, between the 4025 and the 4475 foot horizons, does not permit to establish positive ore reserves; however, a minimum of 250,000 tons of probable reserves is estimated.

Weedon Mines Ltd.

The mine has produced 103,102 tons of ore with an average grade of 2.03% copper, 0.67% zinc, 0.013 ounce of gold and 0.347 ounce of silver. It ceased operations at the end of June 1973, due to the exhaustion of ore.

All the sixty employees received severance pay and thirty of them have since been hired by the Cupra or d'Estrie mines.

Nigadoo River Mines Limited

Due to improved metal prices, the board of directors decided to dewater the mine and to rehabilitate the surface facilities with a view towards resuming operations. Underground development should start soon and we expect to start-up the concentrator early in 1974.

The mine's ore reserves amount to 1,250,000 tons with a grade of 0.24% copper, 3.23% lead, 3.22% zinc and 4.04 ounces of silver.

Clinton Copper Mines Ltd.

On this property, jointly controlled by Dome Mines Limited and the Sullivan Mining Group, surface preparation is now underway at the site of the "O" deposit. The access road is nearing completion, the site has been cleared and Quebec-Hydro is bringing in the high tension line. Sinking of a decline at 18% has begun and it is expected to reach the orebody in December 1973. While development work will continue, mining of the upper sublevels is scheduled to start in January 1974. The ore will be trucked to our concentrator, located at Stratford.

The ore reserves of Clinton Copper Mines Ltd. are distributed as follows:

"O" deposit — 284,000 tons with a grade of 2.41% copper, 1.84% zinc and 0.7 ounce of silver;

"A" deposit — 698,700 tons having a grade of 1.84% copper, 1.58% zinc and 0.4 ounce of silver;

"C" deposit — 363,000 tons grading 1.68% copper and 0.60% zinc;

"F" deposit — 280,000 tons of 2.14% copper and 1.52% zinc;

"E" deposit — 54,500 tons of 1.77% copper and 1.09% zinc.

Chester Mines Limited

The board of directors has decided to start underground exploration of this property located near Newcastle, New Brunswick. The clearing of the site will be carried out this fall and will be followed next spring, by the sinking of an 18% decline. The objective of this program is to explore a disseminated copper zone in which diamond drilling indicated reserves of 3,800,000 tons, grading 1.58% copper.

Employer-Employee Relations

Successful negotiations with the union representing the hourly paid employees of the three Eastern Townships mines, resulted in the conclusion of a new labour agreement to be in force till December 5, 1975. Another agreement was signed with the union representing the junior staff which will terminate on November 30, 1975.

In both cases, negotiations were carried out in a climate of mutual understanding and respect.

General

On behalf of the directors, I would like to express my gratitude to the management, and employees at all levels of responsibility for their loyal services during the year.

Respectfully submitted,



Lucien C. Béliveau, Eng.,
Vice President (Mines)

October 12, 1973.

Metals Production							
	Cupra Division	Subsidiary companies		Total 1972-73		Total 1971-72	
		D'Estrie	Weedon	Pounds *Ounces	Value \$	Pounds *Ounces	Value \$
Copper	3,855,766	6,780,722	4,115,306	14,751,794	10,231,823	16,796,687	7,684,321
Lead	638,818	1,151,686	—	1,790,504	326,067	4,949,252	562,779
Zinc	6,150,533	6,676,547	720,565	13,547,645	3,163,411	18,230,705	3,141,571
Gold*	245	988	420	* 1,653	130,827	* 3,019	196,745
Silver*	64,213	117,549	20,195	* 201,957	500,494	* 455,073	659,678
Cadmium	30,517	32,716	4,020	67,253	296,754	132,729	286,972
Bismuth	1,153	2,438	—	3,591	18,061	18,131	38,803
					<u>\$14,667,437</u>		<u>\$12,570,869</u>

Review of Exploration

Total exploration expenditures of Sullivan Mining Group Ltd. for the fiscal year ended August 31, 1973 amounted to \$937,000. Particular emphasis was placed on the exploration and research work related to the project of Brunswick Tin Mines Limited in southwestern New Brunswick to which the largest part of the expenditures was devoted.

The Brunswick Tin property plays a leading role in the plans of the Group and is considered an important potential producer of tungsten, molybdenum, bismuth and tin, as well as a possible source of fluorspar, indium, copper and zinc. Work performed during the year consisted mostly of metallurgical research and diamond drilling. The company's assay laboratory operated continuously throughout the year and performed 130,500 determinations on some 16,530 samples.

The metallurgical research work was conducted at the Mineral Processing Division of the Department of Energy, Mines and Resources in Ottawa and in Brunswick Tin's own laboratory in Bathurst, N.B. Gravity and flotation methods for the concentration of the sulphides were investigated and various methods of concentrating the tungsten mineral wolframite have also been explored. For the main constituents, tungsten, molybdenum and bismuth, recoveries of better than 70% in concentrates suitable for hydro-metallurgical treatment now seem quite feasible.

Diamond drilling operations on the Brunswick Tin property were continued throughout the year and total footage was 45,968 feet. Most of the holes were aimed at testing the North Zone porphyritic intrusive body similar to that of the Fire Tower Zone. Several mineralized areas were shown to contain a total of 12.6 million tons averaging 0.19% tungsten, 0.06% molybdenum, 0.08% bismuth, 0.11% tin, with small amounts of other metals and 4% to 5% fluorspar.

Important tin mineralization in the form of cassiterite was also found to be widespread within the North Zone. Several holes drilled in one particular area of the intrusive body indicated over a million tons of about 0.5% tin. Higher grade concentrations exist throughout the zone, mostly at depths ranging from 400 feet to 1,000 feet. It appears however that, because of the relatively great depth at which they occur and the large number of drill holes necessary to prove them, these concentrations can best be outlined by diamond drilling from underground development headings and this will be done when underground openings are available.

Diamond drilling was carried out in the Fire Tower Zone to explore further two higher grade areas within this large deposit. This recent drilling confirmed that the zone does contain several million tons of higher grade material. It is indicated that in these two areas, between five and eight million tons have a tungsten - molybdenum - bismuth content 50% higher than the average of the entire zone. The program resulted in a slight increase in total tonnage to 30.0 million tons from 29.5 million tons a year ago. Grade remained at 0.20% tungsten, 0.09% molybdenum, 0.08% bismuth, 0.04% tin, 0.07% copper, 0.35% zinc, 0.08% lead, 4% fluorspar and of about one ounce of indium per ton.

As in the case of the tin mineralization of the North Zone, detailed outlining of the two higher grade areas of the Fire Tower Zone will have to be done

from underground workings. It is proposed to drive a decline to a vertical depth of about 1,000 feet for this purpose and plans are being readied to that effect. The pronounced topographical relief of the Mount Pleasant hill facilitates the use of such a decline.

Extensive metallurgical research will continue in the coming year both on the laboratory and pilot plant levels, in order to determine the most suitable methods of concentration and establish a tentative flowsheet. Progress so far has been significant and there seems to be little doubt that additional work will prove the feasibility and profitability of this venture.

Work is currently in progress on other exploration projects in Eastern Canada and will continue as warranted by the merits of the respective properties and the results obtained. The Sullivan Group maintains its search for other mineral deposits by examining and studying new areas and properties of interest.

A handwritten signature in dark ink, appearing to read "G. Carrière". The signature is fluid and cursive, with a large initial "G" and a stylized "C".

Gilles Carrière, Eng.
Exploration Manager.

October 11, 1973

Officers

JEAN BEAUCHEMIN, *Chairman of the Board*
J. JACQUES BEAUCHEMIN, Q.C.*, *President*
ANDRÉ BEAUCHEMIN, Eng.*, *Executive Vice-President*
LUCIEN C. BÉLIVEAU, Eng.*, *Vice-President (Mines)*
RÉAL J. LAFLEUR, *Secretary-Treasurer*
FERNAND CORDEAU, C.A., *Assistant Secretary-Treasurer*
ROGER PLASSE, Eng., *General Manager*
GILLES CARRIÈRE, Eng., *Exploration Manager*
R. B. GOSSELIN, Eng., *Mine Manager of Cupra, d'Estrie and Weedon Mines*
C. BOURGOIN, Eng., *Mine Manager of Nigadoo Mine*

* Executive Committee

DIRECTORS OF SULLIVAN MINING GROUP LTD.

ANDRÉ BEAUCHEMIN, Eng.
GENDRON BEAUCHEMIN, Eng.
J. JACQUES BEAUCHEMIN, Q.C.
JEAN BEAUCHEMIN
LUCIEN C. BÉLIVEAU, Eng.
MARC H. DHARVERNAS, D.E.Sc.
Brig. Gen. J. GUY GAUVREAU
RÉAL J. LAFLEUR
J. ERNEST LAFORCE
PAUL F. McDONALD, B.C.L.
ALEXANDRE J. MONTMINY

DIRECTORS OF EAST SULLIVAN MINES LIMITED

ANDRÉ BEAUCHEMIN, Eng.
CLAUDE BEAUCHEMIN, Attorney
P. ERNEST BEAUCHEMIN, Q.C.
J. JACQUES BEAUCHEMIN, Q.C.
JEAN BEAUCHEMIN
LUCIEN C. BÉLIVEAU, Eng.
ALBERT DOYON, Economist
Major JACQUES GAUVREAU
ANDRÉ LATREILLE, Eng.
LEO SCHARRY, Eng.

Registrar and Transfer Agents

GUARANTY TRUST COMPANY OF CANADA, Montreal - Toronto
BANKERS TRUST COMPANY, New York

Shares Listed

CANADIAN STOCK EXCHANGE / TORONTO STOCK EXCHANGE

Auditors

MAHEU, NOËL, ANDERSON, VALIQUETTE & ASSOCIÉS, Montreal

Head Office

Suite 2500 - B.C.N. Building, 500 Place D'Armes, Montreal 126, Quebec

Combined Financial Statements

As at August 31, 1973



**Sullivan Mining Group
Ltd.**

and

**East Sullivan Mines
Limited**

Sullivan Mining Group Ltd.
and
East Sullivan Mines Limited

(No Personal Liability)

(Incorporated under the Quebec Companies' Act)

ASSETS

	<u>1973</u>	<u>1972</u>
CURRENT ASSETS		
Cash and term deposits	\$10,095,754	\$ 3,610,019
Marketable securities at cost (market value 1973 - \$485,811) — (1972 - \$1,152,198)	475,543	1,154,130
Accounts receivable — Unconsolidated subsidiaries	105,393	119,373
— Others	84,055	54,985
Recoverable income taxes and prepayments	48,608	34,239
Accrued interest	1,044	14,343
Concentrates valued at estimated net return under firm sales contracts, less advances thereon	2,491,708	4,508,291
Mining and milling supplies :		
Valued at average cost	930,456	1,030,883
Valued at possible amount of realization	153,622	191,909
Prepaid expenses	75,976	61,188
	<u>14,462,159</u>	<u>10,779,360</u>
 INVESTMENTS AT COST AND LOANS AND ADVANCES —		
(schedule 1) — (note 2)	<u>9,710,324</u>	<u>8,400,319</u>
 FIXED ASSETS AT COST — (notes 5 and 7)		
Real estate	111,175	111,175
Land, buildings, plant and equipment less accumulated depreciation — (1973 - \$8,010,056) — (1972 - \$7,688,602)	6,618,202	7,102,659
Mining properties, claims and concessions	351,255	351,255
	<u>7,080,632</u>	<u>7,565,089</u>
 OTHER ASSETS AT COST, less amount written off — (notes 5, 7, 8 and 9)		
Pre-production and deferred development expenditures	12,666,673	14,799,218
Outside exploration expenditures	604,351	838,103
Other deferred expenses	3,999	5,332
	<u>13,275,023</u>	<u>15,642,653</u>
	<u>\$44,528,138</u>	<u>\$42,387,421</u>

On behalf of the Board of Directors :

J. JACQUES BEAUCHEMIN

LUCIEN C. BÉLIVEAU

COMBINED BALANCE SHEET

As at August 31, 1973

(With corresponding figures as at August 31, 1972)

STATEMENT 1

LIABILITIES

CURRENT LIABILITIES

	1973	1972
Accounts payable	\$ 352,399	\$ 132,548
Wages payable	72,347	69,384
Quebec Mining duties and income taxes on capital gains	60,509	194,822
	<u>485,255</u>	<u>396,754</u>

INTEREST OF OUTSIDE SHAREHOLDERS

Sullivan Mining Group Ltd.

CAPITAL STOCK :

Authorized — 10,000,000 shares without par value

Issued and fully paid :

8,400,000 shares	11,242,600	11,242,600
Less : 4,675,000 shares held by East Sullivan Mines Limited	6,257,042	6,257,042
3,725,000 shares held by the outside shareholders	4,985,558	4,985,558
Combined contributed surplus	2,074,105	2,074,105
Combined retained earnings — statement 3	17,750,588	16,583,721
Interest of 3,725,000 shares held by the outside shareholders	<u>24,810,251</u>	<u>23,643,384</u>

East Sullivan Mines Limited

CAPITAL STOCK :

Authorized, issued and fully paid :

4,675,000 shares without par value	4,250,000	4,250,000
Less : 1,828,968 shares held by Sullivan Mining Group Ltd.	1,662,697	1,662,697
2,846,032 shares held by the outside shareholders	2,587,303	2,587,303
Combined contributed surplus	426,450	426,450
Combined retained earnings — statement 3	16,218,879	15,333,530
Interest of 2,846,032 shares held by the outside shareholders	<u>19,232,632</u>	<u>18,347,283</u>
	<u>\$44,528,138</u>	<u>\$42,387,421</u>

COMBINED STATEMENT OF EARNINGS

For the year ended August 31, 1973

(With corresponding figures as at August 31, 1972)

STATEMENT 2

	1973	1972
REVENUE FROM METAL RECOVERIES — Production	\$14,667,437	\$12,570,869
Less : Cost of realization and freight	4,749,756	4,595,741
	<u>9,917,681</u>	<u>7,975,128</u>
DEDUCT :		
OPERATING COSTS		
Mining operations	4,344,360	4,707,723
General administration expenses	388,458	301,982
Depreciation and amortization of pre-production and deferred development expenditures	1,670,880	1,782,170
	<u>6,403,698</u>	<u>6,791,875</u>
EARNINGS FROM OPERATIONS	<u>3,513,983</u>	<u>1,183,253</u>
DEDUCT :		
OTHER EXPENSES		
Net expenses of closed mines and idle property	18,767	252,638
Outside exploration expenses written off	432,277	373,340
Amortization of bonds expenses of subsidiary	1,333	1,333
Loss on disposal of fixed assets	148,702	41,888
	<u>601,079</u>	<u>669,199</u>
	<u>2,912,904</u>	<u>514,054</u>
ADD :		
OTHER INCOME		
Interest from unconsolidated subsidiaries	371,521	422,685
Other interest and dividends — net	434,006	275,949
Profit on sales of investments	(760)	399,020
	<u>804,767</u>	<u>1,097,654</u>
NET EARNINGS before income taxes and mining duties	<u>3,717,671</u>	<u>1,611,708</u>
Mining duties (1972 capital gains tax)	45,000	30,000
	<u>3,672,671</u>	<u>1,581,708</u>
ADD :		
Minority interest's share of loss of Nigadoo River Mines Limited for the year	2,656	20,901
NET EARNINGS before extraordinary item	3,675,327	1,602,609
EXTRAORDINARY ITEM (note 9)	<u>1,673,124</u>	<u>—</u>
NET EARNINGS for the year carried to Retained Earnings — statement 3	<u>\$ 2,002,203</u>	<u>\$ 1,602,609</u>
INTEREST OF THE OUTSIDE SHAREHOLDERS		
Sullivan Mining Group Ltd. — 3,725,000 shares	\$ 1,138,516	\$ 908,881
East Sullivan Mines Limited — 2,846,032 shares	863,687	693,728
6,571,032 shares	<u>\$ 2,002,203</u>	<u>\$ 1,602,609</u>

COMBINED STATEMENT OF RETAINED EARNINGS

For the year ended August 31, 1973

STATEMENT 3

	Sullivan Mining Group Ltd.	East Sullivan Mines Limited
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>\$16,583,721</u>	<u>\$15,333,530</u>
ADD:		
Net earnings for the year as per statement 2	1,138,516	863,687
Adjustments of prior years' income taxes	<u>29,857</u>	<u>22,812</u>
	1,168,373	886,499
	<u>17,752,094</u>	<u>16,220,029</u>
DEDUCT:		
Minority portion of deficit of Nigadoo River Mines Limited	<u>1,506</u>	<u>1,150</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$17,750,588</u>	<u>\$16,218,879</u>

COMBINED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended August 31, 1973

(With corresponding figures as at August 31, 1972)

STATEMENT 4

	1973	1972
WORKING CAPITAL AT BEGINNING OF YEAR	<u>\$10,382,606</u>	<u>\$ 9,469,436</u>
SOURCE OF FUNDS		
Net earnings for the year	\$ 2,002,203	
Add: Items not requiring cash outlay:		
Depreciation and amortization	1,670,880	
Extraordinary item (note 9)	1,673,124	
Amortization of deferred expenses	1,333	
Outside exploration written-off	<u>432,277</u>	
	5,779,817	3,759,452
Reimbursements of mortgages	8,396	4,030
Disposals of fixed assets (net of additions)	87,583	418,994
Adjustments of prior years' income taxes	<u>52,669</u>	<u>(23,821)</u>
	<u>\$ 5,928,465</u>	<u>\$ 4,158,655</u>
APPLICATION OF FUNDS		
Minority interest share of the loss of a consolidated subsidiary	2,656	20,901
Investments acquired:		
Loans and advances to subsidiaries not combined and affiliate	1,316,355	1,184,491
Purchases of shares and debentures in other companies	2,046	27,254
Outside exploration expenses	198,525	218,651
Pre-production expenses and deferred development expenditures	<u>814,585</u>	<u>1,794,188</u>
	2,334,167	3,245,485
Increase in working capital	<u>3,594,298</u>	<u>913,170</u>
WORKING CAPITAL AT END OF YEAR	<u>\$13,976,904</u>	<u>\$10,382,606</u>

SUBSIDIARY COMPANIES NOT CONSOLIDATED

As at August 31, 1973

SCHEDULE 1

	Brompton Mines Limited	Brunswick Tin Mines Limited	Chester Mines Limited	Courvan Mining Company Limited	Eastern Explorers Corporation	Federal Metals Corporation	Millstream Mines Limited
% of Interest	80%	78%	100%	56.09%	73.33%	70.74%	50%
Current assets	\$ 37	\$ 55,571	\$ 371	\$ 23,021	\$ 48	\$ 48,189	\$ 4,060
Investments at cost	—	—	—	411,634	—	26,716	—
Buildings and equipment	—	302,335	13,500	—	—	—	—
Deferred expenditures	24,623	4,973,880	1,877,010	510,907	7,407	841,596	162,565
Mining properties, licences, rights, claims and concessions (see note "A" below)	114,500	79,000	75,000	268,142	300,000	1,000,000	37,500
	<u>\$ 139,160</u>	<u>\$5,410,786</u>	<u>\$1,965,881</u>	<u>\$1,213,704</u>	<u>\$ 307,455</u>	<u>\$1,916,501</u>	<u>\$ 204,125</u>
Current Liabilities :							
Affiliated company	—	5,596	—	—	—	—	—
Parent company	—	99,797	—	—	3,359	—	—
Others	—	23,389	—	—	—	—	—
Loans payable to parent company ...	7,000	4,865,000	—	—	4,090	—	—
Expenses to be reimbursed by the issue of shares of the company	19,653	—	1,792,474	—	—	122,130	16,620
Capital stock — net discount	112,507	417,004	173,407	1,502,585	300,006	1,794,371	75,005
Deficit	—	—	—	(288,881)	—	—	—
Capital Surplus	—	—	—	—	—	—	112,500
	<u>\$ 139,160</u>	<u>\$5,410,786</u>	<u>\$1,965,881</u>	<u>\$1,213,704</u>	<u>\$ 307,455</u>	<u>\$1,916,501</u>	<u>\$ 204,125</u>

NOTE A — The amounts at which these items are recorded do not purport to represent their present or future value.

B — The total cost of the holdings and the loans and advances in the above unconsolidated subsidiaries is \$9,033,906 — (note 2).

NOTES TO COMBINED FINANCIAL STATEMENTS

As at August 31, 1973

Note 1

The combined financial statements include the accounts of the two main companies, Sullivan Mining Group Ltd. and East Sullivan Mines Limited and those of the following subsidiaries: Nigadoo River Mines Limited (96.11%), Weedon Mines Ltd. (100%) and d'Estrle Mining Company Ltd. (100%). The other subsidiaries are excluded in the combined balance sheet because they are at the exploration stage.

Note 2 — Investments at Cost and Loans and Advances

Subsidiaries not included in the combined financial statements: (schedule 1)

Courvan Mining Company Limited (Market Value \$314,127)	\$ 464,664
Other shares	1,738,917
Loans and advances	<u>6,830,325</u>
	9,033,906
Affiliated company:	
Shares	29,716
Loans and advances	19,488
Other securities:	
Shares	414,042
First mortgage income bonds	144,144
Mortgages receivable from employees and a director	<u>69,028</u>
	<u>\$ 9,710,324</u>

Note 3 — Income Taxes

The earnings for the year of Sullivan Mining Group Ltd. and each of its subsidiaries are not taxable because the company claimed for tax purposes depreciation and outside exploration expenditures and deferred mine development in excess of the amount charged against earnings. Furthermore, the company and its subsidiaries had as at August 31, 1973 undepreciated capital cost of \$8,948,000 and unamortized outside exploration expenditures and deferred mine development of \$16,199,000 available for write off against possible future taxable profits.

Note 4 — Pending Legal Procedure

Legal proceedings have been instituted against the company whereby the plaintiffs are claiming 4/5 of the 340,000 escrowed shares of Sullipek Mines Inc. to be issued and allotted to Sullivan Mining Group Ltd. and alternatively failing delivery of the claimed shares, the plaintiffs have claimed the sum \$1,000,000 of damages against Sullivan Mining Group Ltd. This litigation has arisen from an option granted by the Company to Terra Nova Explorations Ltd. on certain claims situated in the Gaspé area of the Province of Québec. These proceedings have been contested and in the opinion of the company's counsel they are ill-founded in facts and in law.

Note 5 — D'Estrle Mining Company Ltd.

The Company has filed an Application with the Department of National Revenue (Federal) and the Department of Revenue (Québec) claiming a tax exemption provided under the provisions of their respective Act for the period commencing on the 1st March, 1972. In a letter dated 13th February, 1973 the Department of National Revenue has refused the Company's claim to this exemption. However, following further representations by officials of the Company and its legal advisers, the Department of National Revenue is reconsidering the Company's Application and the documentation submitted in support of the said Application.

Depreciation of fixed assets and amortization of pre-production and deferred mine development expenditures have been charged against earnings from March 1, 1972.

Note 6 — Weedon Mines Ltd.

The earnings for the year ended August 31, 1973 are not taxable because the thirty-six months tax exempt period started January 1, 1971.

Note 7 — Nigadoo River Mines Limited

The mining plant was shut down by a strike of the employees on November 21, 1971 and on January 4, 1972, management decided to suspend operations for an indefinite period.

Depreciation on fixed assets has been charged in the accounts for the period of three months ended November 30, 1971.

Management decided that no further depreciation of fixed assets or amortization of pre-production and deferred mine development expenditures shall be effected after November 30, 1971.

Note 8 — Pre-Milling and Deferred Development Expenditures

Sullivan Mining Group Ltd. and its subsidiaries in production, have amortized pre-milling and deferred mine development expenditures at rates based on the total estimated ore reserves of the properties.

The bases of amortization are subject to the economic recovery and sale of concentrates in sufficient quantity to fully amortize the deferred expenditures.

Note 9 — Extraordinary Item

Since the mining operations ceased completely at the Weedon Mine on June 29, 1973 and the estimated ore reserve of the property proved insufficient to fully amortize the deferred expenditures, management decided to charge against earnings the balance of the aforementioned expenses amounting to \$1,673,124.

Auditors' Report

To the Shareholders,
Sullivan Mining Group Ltd.
and East Sullivan Mines Limited
(No Personal Liability)
Montreal, P.Q.

We have examined the combined balance sheet of Sullivan Mining Group Ltd. and East Sullivan Mines Limited (No Personal Liability) as at August 31, 1973 and the combined statements of earnings, retained earnings and source and application of funds for the year ended on that date.

These statements are prepared for the purpose of determining the interest of the outside shareholders, excluding that of Sullivan Mining Group Ltd. and of East Sullivan Mines Limited and are based on the verified financial statements as at August 31, 1973 of Sullivan Mining Group Ltd. consolidated with certain of its subsidiaries (note 1) and of East Sullivan Mines Limited.

In our opinion, these financial statements present fairly the interest of the outside shareholders of Sullivan Mining Group Ltd. and East Sullivan Mines Limited as at August 31, 1973.

MAHEU, NOËL, ANDERSON, VALIQUETTE & ASSOCIÉS
Chartered Accountants

October 15, 1973

Financial Statements

as at August 31, 1973

**Sullivan Mining Group
Ltd. and its Subsidiaries**

and

**East Sullivan Mines
Limited**

Sullivan Mining Group Ltd.

and its subsidiaries

(Incorporated under the Quebec Companies' Act)

ASSETS

	1973	1972
CURRENT ASSETS		
Cash and term deposits	\$ 9,638,346	\$ 3,145,786
Marketable securities at cost (Market value 1973 - \$485,811 — 1972 - \$1,152,198)	475,543	1,154,130
Accounts receivable — unconsolidated subsidiaries	105,393	119,373
— others	84,055	54,985
— parent company	3,325	—
Recoverable income taxes and prepayments	48,339	33,970
Accrued interest	1,044	14,343
Concentrates valued at estimated net return under firm sales contracts, less advances thereon	2,491,708	4,508,291
Mining, milling and refinery supplies:		
Valued at average cost	930,456	1,030,883
Valued at possible amount of realization	153,622	191,909
Prepaid expenses	75,976	61,188
	<u>14,007,807</u>	<u>10,314,858</u>
INVESTMENTS AT COST AND LOANS AND ADVANCES — (Schedule 1)		
(Note 2)	<u>10,823,029</u>	<u>9,513,024</u>
FIXED ASSETS AT COST — (Notes 5 and 7)		
Real estate	111,175	111,175
Land, buildings, plant and equipment — less accumulated depreciation — (1973 - \$8,010,056 — 1972 - \$7,688,602)	6,618,202	7,102,659
Mining properties, claims and concessions	351,055	351,055
	<u>7,080,432</u>	<u>7,564,889</u>
OTHER ASSETS AT COST, less amounts written off — (Notes 5, 7, 8 and 9)		
Pre-milling and deferred development expenditures	12,666,673	14,799,218
Outside exploration expenditures	604,351	838,103
Other deferred expenses	3,999	5,332
	<u>13,275,023</u>	<u>15,642,653</u>
	<u>\$45,186,291</u>	<u>\$43,035,424</u>

Approved on behalf of the Board of Directors:

J. JACQUES BEAUCHEMIN

ANDRÉ BEAUCHEMIN

CONSOLIDATED BALANCE SHEET

As at August 31, 1973

(With corresponding figures as at August 31, 1972)

STATEMENT 1

LIABILITIES

	1973	1972
CURRENT LIABILITIES		
Accounts payable	\$ 352,399	\$ 132,548
Wages payable	72,347	69,384
Quebec Mining duties and income taxes on capital gains	60,509	194,822
	<u>485,255</u>	<u>396,754</u>
 CAPITAL STOCK		
Authorized — 10,000,000 shares without par value		
Issued and fully paid — 8,400,000 shares	11,242,600	11,242,600
Contributed surplus	4,677,177	4,677,177
Retained earnings — Statement 3	<u>28,781,259</u>	<u>26,718,893</u>
SHAREHOLDERS' EQUITY	<u>44,701,036</u>	<u>42,638,670</u>
	<u>\$45,186,291</u>	<u>\$43,035,424</u>

AUDITORS' REPORT

To the Shareholders,
Sullivan Mining Group Ltd.,
Montreal, Que.

We have examined the consolidated balance sheet of Sullivan Mining Group Ltd. and its subsidiaries, Nigadoo River Mines Ltd., Weedon Mines Ltd. and D'Estrie Mining Co. Ltd. as at August 31, 1973 and the consolidated statements of earnings, retained earnings and source and application of funds for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the Companies, the consolidated financial statements present fairly the financial position of the Companies as at August 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

MAHEU, NOËL, ANDERSON, VALIQUETTE & ASSOCIÉS
Chartered Accountants

October 15, 1973

CONSOLIDATED STATEMENT OF EARNINGS

For the year ended August 31, 1973

(With corresponding figures as at August 31, 1972)

STATEMENT 2

	1973	1972
REVENUE FROM METAL RECOVERIES — Production	\$14,667,437	\$12,570,869
Less: Cost of realization and freight	4,749,756	4,595,741
	<u>9,917,681</u>	<u>7,975,128</u>
DEDUCT:		
OPERATING COSTS		
Mining operations	4,344,360	4,707,723
General administration expenses	351,575	265,394
Depreciation and amortization of deferred development and pre-production expenditures	1,670,880	1,782,170
	<u>6,366,815</u>	<u>6,755,287</u>
EARNINGS FROM OPERATIONS	<u>3,550,866</u>	<u>1,219,841</u>
OTHER EXPENSES		
Net expenses of closed and idle properties	18,767	252,638
Outside exploration expenses written off	432,277	373,340
Amortization of bond expenses of subsidiary	1,333	1,333
Loss on disposal of fixed assets	148,702	41,888
Interest expense — parent company	—	23,910
	<u>601,079</u>	<u>693,109</u>
	<u>2,949,787</u>	<u>526,732</u>
OTHER INCOME		
Interest from unconsolidated subsidiaries	371,521	422,685
Other interest and dividends	407,273	264,401
Profit on sales of investments	(760)	399,020
	<u>778,034</u>	<u>1,086,106</u>
EARNINGS before mining duties and taxes	3,727,821	1,612,838
Mining duties — (1972 income taxes on capital gains)	45,000	30,000
	<u>3,682,821</u>	<u>1,582,838</u>
ADD:		
Minority interest's share of loss of Nigadoo River Mines Limited for the year ..	<u>2,656</u>	<u>20,901</u>
EARNINGS before extraordinary item	3,685,477	1,603,739
EXTRAORDINARY ITEM	<u>1,673,124</u>	<u>—</u>
NET EARNINGS FOR THE YEAR, carried to Retained Earnings — Statement 3	<u>\$ 2,012,353</u>	<u>\$ 1,603,739</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended August 31, 1973

(With corresponding figures as at August 31, 1972)

STATEMENT 3

	1973	1972
RETAINED EARNINGS AT BEGINNING OF YEAR	\$26,718,893	\$25,159,428
ADD:		
Net earnings for the year as per statement 2	2,012,353	1,603,739
Adjustments of prior years' income taxes	52,669	(23,373)
	2,065,022	1,580,366
	28,783,915	26,739,794
DEDUCT:		
Minority portion of net loss of Nigadoo River Mines Limited	2,656	20,901
	2,656	20,901
RETAINED EARNINGS AT END OF YEAR	\$28,781,259	\$26,718,893

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended August 31, 1973

(With corresponding figures as at August 31, 1972)

STATEMENT 4

	1973	1972
WORKING CAPITAL AT BEGINNING OF YEAR	\$ 9,918,104	\$ 9,003,356
SOURCE OF FUNDS		
Net earnings for the year	2,012,353	1,603,739
Add: items not requiring any outlay of cash:		
Depreciation and amortization	1,670,880	1,782,170
Extraordinary item	1,673,124	—
Amortization of deferred expenses	1,333	1,333
Outside exploration written-off	432,277	373,340
Reimbursement of mortgages	8,396	4,030
Disposals of fixed assets (net of additions)	87,583	418,994
Adjustment of prior years' income taxes	52,669	(23,373)
	5,938,615	4,160,233
APPLICATION OF FUNDS		
Minority interest's share of the loss of a consolidated subsidiary*	2,656	20,901
Investments acquired:		
Loans and advances to subsidiaries not consolidated and affiliated	1,316,355	1,184,491
Purchase of shares and debentures in other companies	2,046	27,254
Outside exploration expenses	198,525	218,651
Pre-production and deferred development expenditures	814,585	1,794,188
	2,334,167	3,245,485
Increase in working capital	3,604,448	914,748
WORKING CAPITAL AT END OF YEAR	\$13,522,552	\$ 9,918,104

SUBSIDIARY COMPANIES NOT CONSOLIDATED

As at August 31, 1973

SCHEDULE 1

	Brompton Mines Limited	Brunswick Tin Mines Limited	Chester Mines Limited	Courvan Mining Company Limited	Eastern Explorers Corporation	Federal Metals Corporation	Millstream Mines Limited
% of interest	80%	78%	100%	56.09%	73.33%	70.74%	50%
Current assets	\$ 37	\$ 55,571	\$ 371	\$ 23,021	\$ 48	\$ 48,189	\$ 4,060
Investments at cost	—	—	—	411,634	—	26,716	—
Buildings and equipment	—	302,335	13,500	—	—	—	—
Deferred expenditures	24,623	4,973,880	1,877,010	510,907	7,407	841,596	162,565
Mining properties, licenses, rights, claims and concessions (see note "A" below)	114,500	79,000	75,000	268,142	300,000	1,000,000	37,500
	<u>\$ 139,160</u>	<u>\$ 5,410,786</u>	<u>\$ 1,965,881</u>	<u>\$ 1,213,704</u>	<u>\$ 307,455</u>	<u>\$ 1,916,501</u>	<u>\$ 204,125</u>
Current Liabilities:							
Affiliated company	\$ —	\$ 5,596	\$ —	\$ —	\$ —	\$ —	\$ —
Parent company	—	99,797	—	—	3,359	—	—
Others	—	23,389	—	—	—	—	—
Loans payable to parent company ...	7,000	4,865,000	—	—	4,090	—	—
Expenses to be reimbursed by the issue of shares of the company	19,653	—	1,792,474	—	—	122,130	16,620
Capital stock — net discount	112,507	417,004	173,407	1,502,585	300,006	1,794,371	75,005
Deficit	—	—	—	(288,881)	—	—	—
Capital Surplus	—	—	—	—	—	—	112,500
	<u>\$ 139,160</u>	<u>\$ 5,410,786</u>	<u>\$ 1,965,881</u>	<u>\$ 1,213,704</u>	<u>\$ 307,455</u>	<u>\$ 1,916,501</u>	<u>\$ 204,125</u>

NOTE A — The amounts at which these items are recorded do not purport to represent their present or future value.

B — The total cost of the holdings and the loans and advances in the above unconsolidated subsidiaries is \$9,033,906 (note 2).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at August 31, 1973

Note 1 — Basis of Consolidation

The consolidated financial statements include the accounts of Sullivan Mining Group Ltd. and those of the following subsidiaries: Nigadoo River Mines Limited (96.11%), Weedon Mines Ltd. (100%) and d'Estrie Mining Company Ltd. (100%). The other subsidiaries are excluded in the consolidated balance sheet because they are at the exploration stage.

Note 2 — a) Investments

The company owns 1,828,968 shares of the parent company East Sullivan Mines Limited, representing 39.1% of the outstanding capital stock. This investment is carried at cost and the income of the parent is included in the accounts only to the extent of dividends received. The parent owns 55.6% of the outstanding capital stock of the company.

b) Investments at Cost and Loans and Advances

East Sullivan Mines Limited — parent company — (Market Value — \$5,029,662)	\$ 1,112,705
Subsidiaries not consolidated: (Schedule 1)	
Courvan Mining Company Limited — (Market Value — \$314,127)	464,664
Other shares	1,738,917
Loans and advances	6,830,325
	<u>9,033,906</u>
Affiliated company:	
Shares	29,716
Loans and advances	19,488
Other securities:	
Shares	414,042
First mortgage income bonds	144,144
Mortgages receivable from employees and a director	69,028
	<u>676,418</u>
	<u>\$10,823,029</u>

Note 3 — Income Taxes

The earnings for the year of Sullivan Mining Group Ltd. and of each of its subsidiaries are not taxable because the company claimed for tax purposes depreciation and outside exploration expenditures and deferred mine development in excess of the amount charged against earnings.

Furthermore, the company and its subsidiaries had as at August 31, 1973, undepreciated capital cost of \$8,948,000 and unamortized outside exploration expenditures and deferred mine development of \$16,199,000 available for write off against possible future taxable profits.

Note 4 — Pending Legal Procedure

Legal proceedings have been instituted against the company whereby the plaintiffs are claiming $\frac{4}{5}$ of the 340,000 escrowed shares of Sullipek Mines Inc. to be issued and allotted to Sullivan Mining Group Ltd. and alternatively failing delivery of the claimed shares, the plaintiffs have claimed the sum of \$1,000,000 of damages against Sullivan Mining Group Ltd. This litigation has arisen from an option granted by the Company to Terra Nova Explorations Ltd. on certain claims situated in the Gaspé area of the Province of Québec. These proceedings have been contested and in the opinion of the company's counsel they are ill-founded in facts and in law.

Note 5 — D'Estrie Mining Company Ltd.

The Company has filed an Application with the Department of National Revenue (Federal) and the Department of Revenue (Québec) claiming a tax exemption provided under the provisions of their respective Act for the period commencing on the 1st March, 1972. In a letter dated the 13th February, 1973 the Department of National Revenue has refused the Company's claim to this exemption. However, following further representations by officials of the Company and its legal advisers, the Department of National Revenue is reconsidering the Company's Application and the documentation submitted in support of the said Application.

Depreciation of fixed assets and amortization of pre-production and deferred mine development expenditures have been charged against earnings from March 1, 1972.

Note 6 — Weedon Mines Ltd.

The earnings for the year ended August 31, 1973 are not taxable because the thirty-six months tax exemption period started January 1, 1971.

Note 7 — Nigadoo River Mines Limited

The mining plant was shut down by a strike of the employees on November 21, 1971 and on January 4, 1972, management decided to suspend operations for an indefinite period.

Depreciation of fixed assets has been charged in the accounts for the period of three months ended November 30, 1971. Management decided that no further depreciation of fixed assets or amortization of pre-production expenditures shall be effected after November 30, 1971.

Note 8 — Pre-Milling and Deferred Development Expenditures

Sullivan Mining Group Ltd. and its subsidiaries in production, have amortized pre-milling and deferred mine development expenditures at rates based on the total estimated ore reserves of the properties.

The bases of amortization is subject to the economic recovery and sale of concentrates in sufficient quantity to fully amortize the deferred expenditures.

Note 9 — Extraordinary Item

Since the mining operations ceased completely at the Weedon Mine on June 29, 1973 and the estimated ore reserve of the property proved insufficient to fully amortize the deferred expenditures, management decided to charge against earnings, the unamortized balance of the aforementioned expenses amounting to \$1,673,124.

East Sullivan Mines Limited

(No Personal Liability)

(Incorporated under the Quebec Mining Companies' Act)

BALANCE SHEET As at August 31, 1973

(With corresponding figures as at August 31, 1972)

STATEMENT 1

ASSETS

CURRENT ASSETS

	1973	1972
Cash and Term Deposit	\$ 453,232	\$ 462,567
Accrued interest	4,176	1,666
Recoverable income tax	269	269
	<u>457,677</u>	<u>464,502</u>

INVESTMENT IN SUBSIDIARY COMPANY AT COST (Note 1)

4,675,000 shares Sullivan Mining Group Ltd.

(market value, 1973 — \$13,090,000

1972 — \$11,921,250)

.....	13,143,279	13,143,279
MINING CLAIMS	200	200

\$13,601,156 \$13,607,981

LIABILITIES

CURRENT LIABILITIES

Accounts payable to subsidiary company	\$ 3,325	—
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CAPITAL STOCK

Authorized, issued and fully paid

4,675,000 shares without par value	4,250,000	4,250,000
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CONTRIBUTED SURPLUS — Premium on shares issued	700,503	700,503
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RETAINED EARNINGS — Statement 3	8,647,328	8,657,478
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SHAREHOLDERS' EQUITY	13,597,831	13,607,981
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\$13,601,156 \$13,607,981

Approved on behalf of the Board of Directors:

J. JACQUES BEAUCHEMIN

LUCIEN C. BÉLIVEAU

STATEMENT OF EARNINGS

For the year ended August 31, 1973

(With corresponding figures as at August 31, 1972)

STATEMENT 2

	<u>1973</u>	<u>1972</u>
INCOME		
Interest — subsidiary company	\$ —	\$ 23,910
— others	<u>26,733</u>	<u>11,548</u>
	26,733	35,458
DEDUCT		
Administration expenses — net	<u>36,883</u>	<u>36,589</u>
NET LOSS carried to retained earnings (Statement 3)	<u>\$ 10,150</u>	<u>\$ 1,131</u>

STATEMENT OF RETAINED EARNINGS

For the year ended August 31, 1973

(With corresponding figures as at August 31, 1972)

STATEMENT 3

	<u>1973</u>	<u>1972</u>
BALANCE AT BEGINNING OF YEAR	<u>\$ 8,657,478</u>	<u>\$ 8,659,057</u>
DEDUCT		
NET LOSS for the year as per Statement 2	10,150	1,131
Prior years' income taxes adjustments	<u>—</u>	<u>448</u>
	10,150	1,579
BALANCE AT END OF YEAR	<u>\$ 8,647,328</u>	<u>\$ 8,657,478</u>

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended August 31, 1973

(With corresponding figures as at August 31, 1972)

STATEMENT 4

	<u>1973</u>	<u>1972</u>
WORKING CAPITAL AT BEGINNING OF YEAR	<u>\$ 464,502</u>	<u>\$ 466,081</u>
APPLICATION OF FUNDS		
Net loss for the year	10,150	1,131
Prior years' income taxes adjustments	<u>—</u>	<u>448</u>
Decrease in working capital	<u>10,150</u>	<u>1,579</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 454,352</u>	<u>\$ 464,502</u>

Notes to Financial Statements

As at August 31, 1973

Note 1

The accounts of the subsidiary Sullivan Mining Group Ltd., have not been consolidated because of the substantial minority interest. It is the opinion of management that a more meaningful appraisal of its financial condition may be obtained from the attached financial statements together with the supplemental information contained in Note 2 and in the consolidated financial statements of Sullivan Mining Group Ltd. and combined financial statements of East Sullivan Mines Limited and Sullivan Mining Group Ltd. These latter statements are included in the 1973 annual report to the shareholders.

Note 2

The company owns 4,675,000 shares of its subsidiary, Sullivan Mining Group Ltd., representing 55.6% of the outstanding capital stock. This investment is carried at cost and the income of the subsidiary is included in the accounts only to the extent of dividends received. The subsidiary owns 39.1% of the outstanding capital stock of the company.

Auditors' Report

To the Shareholders,
East Sullivan Mines Limited,
(No Personal Liability)
Montreal, Que.

We have examined the balance sheet of East Sullivan Mines Limited (No Personal Liability) as at August 31, 1973 and the statements of earnings, retained earnings and of source and application of funds for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements, when read with the two (2) notes related thereto, present fairly the financial position of the company as at August 31, 1973 and the results of its operations and the source and application of funds for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

MAHEU, NOËL, ANDERSON, VALIQUETTE & ASSOCIÉS
Chartered Accountants

October 3, 1973

